M.E.P.C. CANADIAN PROPERTIES LIMITED

ANNUAL REPORT

1966

Board of Directors

C. E. M. Hardie, C.B.E., F.C.A.
Metropolitan Estate and Property Corporation Limited

W. G. Tucker, Q.C.
Fraser, Beatty, Tucker, McIntosh & Stewart

P. A. Anker, F.R.I.C.S.
M.E.P.C. Canadian Properties Limited

P. A. Cumyn
Royal Securities Corporation Limited

R. J. Dickinson
Metropolitan Estate and Property Corporation Limited

A. Ross Poyntz
The Imperial Life Assurance Company of Canada

D. N. Stoker
Nesbitt, Thomson and Company Limited

D. A. Thompson, Q.C.
Thompson, Dilts and Company

Executive Officers

C. E. M. Hardie, C.B.E., F.C.A.—*Chairman*

W. G. Tucker, Q.C.—*Deputy Chairman*

P. A. Anker, F.R.I.C.S.—*President*

C. Alec Shearson, C.A.—*Secretary*

Head Office

365 Bay Street, Toronto 1, Ontario, Canada

Auditors

McLintock Murray Sharp & Co., Toronto
—*Chartered Accountants*

Stock Transfer Agent and Registrar

The Royal Trust Company

Bond Trustees

The Royal Trust Company

Montreal Trust Company

Shares Listed

The Toronto Stock Exchange

M. E. P. C. CANADIAN PROPERTIES LIMITED

President's Report and Accounts

for the Year Ended September 30, 1966

365 Bay Street, Toronto 1

M.E.P.C. Canadian Properties Limited

is a subsidiary company of

Metropolitan Estate and Property Corporation Limited

Brook House, 113 Park Lane, London W.1, England

A PROPOSED DEVELOPMENT OF IMPCO PROPERTIES LIMITED

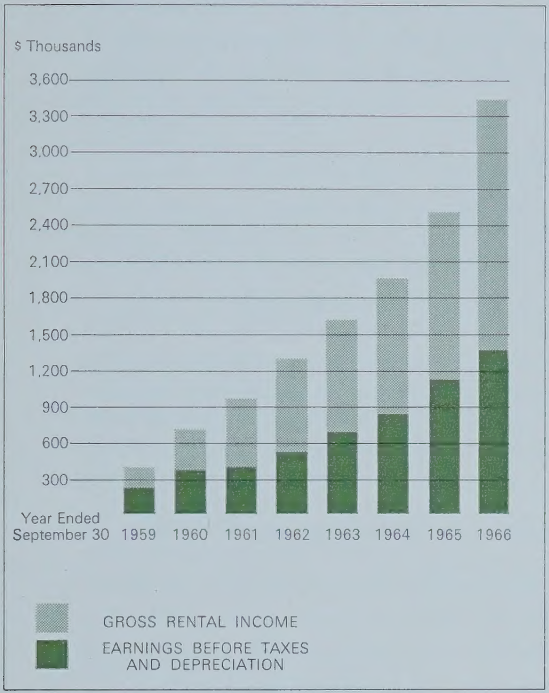
It is anticipated that construction of a modern office building will commence shortly at the intersection of Georgia and Pender Streets, Vancouver. The main tenant will be The Imperial Life Assurance Company of Canada.

STATISTICAL INFORMATION

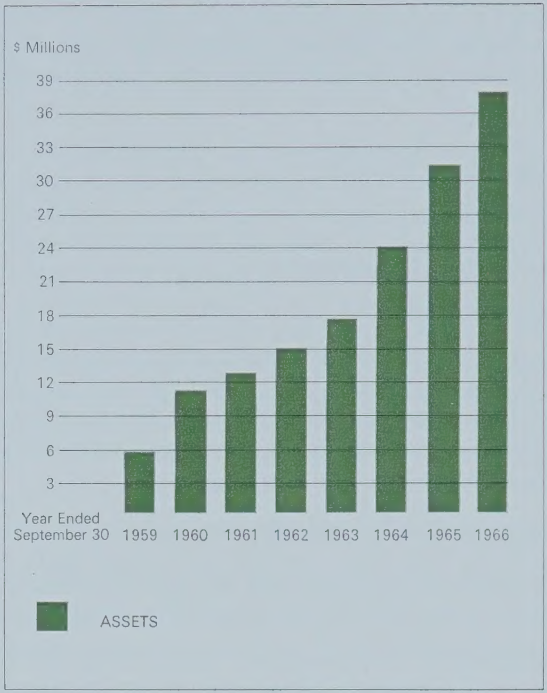
M.E.P.C. CANADIAN PROPERTIES LIMITED

AND SUBSIDIARY COMPANIES

INCOME GROWTH



ASSET GROWTH



GROWTH IN ASSETS AND RENTAL INCOME

The consolidated real estate assets of the Company and subsidiaries, shown at cost, and the consolidated gross rental income for the six years ended September 30, 1966 were as follows:

Fiscal Year Ended	Real Estate Assets	Gross Rental Income
September 30, 1961	$11,890,214	$1,060,524
September 30, 1962	14,323,133	1,275,212
September 30, 1963	17,737,395	1,630,448
September 30, 1964	21,441,024	1,938,284
September 30, 1965	30,917,596	2,489,125
September 30, 1966	35,841,512	3,413,510

ANALYSIS OF RENTAL INCOME

The annual consolidated rent receivable by the Company and its subsidiaries amounts to approximately $4,000,000 and is derived from leases maturing within the following periods in the following approximate amounts:

Leases maturing	Annual Gross Rents Receivable
Within 5 years	$1,600,000
From 5 to 10 years	700,000
From 10 to 15 years	800,000
From 15 to 20 years	600,000
More than 20 years	300,000

Rental revenue is based on continuing contractual obligations within a lease giving a property investment company a strong measure of income stability.

REPORT BY THE PRESIDENT TO THE SHAREHOLDERS OF M.E.P.C. CANADIAN PROPERTIES LIMITED

Once again I am able to report another successful year, and indeed 1966 has proved to be one of the most interesting years in the growth of the Company. The following figures illustrate the trend:

	1966	1965	% Increase
Gross Rental Revenue	$ 3,413,510	$ 2,489,125	37.1%
Net Rental Revenue	$ 2,589,420	$ 2,015,959	28.4%
Profit Before Depreciation	$ 1,353,990	$ 1,100,678	23.0%
Property Assets	$35,841,512	$30,917,596	15.9%

Towards the end of 1965 it became apparent to the Directors that not only were interest rates rising but that the supply of money was becoming very limited. Accordingly, the Directors entered into certain negotiations to make sure the Company had sufficient equity and loan capital, which together with reasonable bank borrowings would enable the Company to continue its anticipated growth. These negotiations resulted in the following:

1. The borrowing of $2,000,000 from The Royal Trust Company at an interest rate of 6¾%.
2. A commitment to borrow approximately $1,000,000 from The Imperial Life Assurance Company of Canada by way of conventional mortgages at an interest rate of 7¼%.
3. A commitment to borrow approximately $3,000,000 U.S. from The Northwestern Mutual Life Insurance Company of Milwaukee by way of first mortgage bonds at an interest rate of 6⅜%.
4. The raising of $2,500,000 by way of 100,000 6% Cumulative Redeemable Preference Shares Series A.
5. The pledging of certain additional property under existing Trust Deeds and the raising of various other mortgages on specific properties from conventional sources.

These additional funds with resulting interest charges have, prior to investment in real estate, slightly affected the net profit of the Company for this year which nevertheless showed a satisfactory increase. It is the opinion of the Directors that the Company is now in a very strong cash position and well able to take advantage of favourable situations which have appeared in increasing numbers on the real estate market. These increased interest charges will be more than offset in subsequent years as the Company is currently investing in property at much higher yields than were available even a few months ago.

In addition to the above sources of funds, your Company has continued to add to its real estate portfolio through its associated companies. There appear to be excellent prospects for both Impco Properties Limited and Mepcon Estates Limited during the coming years, and we are grateful for the present excellent relationships that exist between M.E.P.C. and both The Imperial Life Assurance Company of Canada and Confederation Life Association respectively.

The Company has undertaken more developments this past year than at any other period of its history. In most cases leases were arranged before construction commenced but occasionally the Company developed without prior lease commitments, particularly on parcels of surplus land which had been purchased as part of earlier transactions. Pictures showing some of these developments are included in this report. The Company has also financed more additions to existing buildings and is in a position to take care of requests from various tenants for new or larger accommodation wherever needed.

Several existing investments have been purchased during the year on satisfactory terms and negotiations are currently in hand to acquire other similar properties.

The Company has also tried to co-operate with the Government's recent requests to curtail development. This position has been difficult to maintain owing to the great demand for accommodation from many sources, including various levels of Governments themselves. It was, however, decided to temporarily postpone the large development planned for downtown Ottawa and also developments considered for Winnipeg and Calgary. In addition, the Directors felt that in this period of tight money it was unwise to tie up a substantial amount of capital in projects which could not immediately produce income. In all cases the sites will appreciate in value and indeed at the present time are showing satisfactory returns.

Through various negotiations it has now been established beyond any shadow of a doubt that there is substantial appreciation in the value of the Company's holdings. One property was sold during the year to show a satisfactory profit, and other negotiations established substantial increments in value. I must emphasize to our shareholders that not only is the real estate owned by the Company and its subsidiaries shown on the balance sheet at its original cost—giving no indication whatsoever of the current capital or market value—but in addition many of the leases which were negotiated some years ago are beginning to expire and, again, present indications are that these will be renewed or re-negotiated at substantial increases in accordance with rental rates prevailing today. The Company has a well balanced portfolio of secure, long term leases together with many short term situations which will enable it to take advantage of current values. Well financed, soundly constructed real estate in the right location must appreciate in value relative to the growth of a dynamic economy such as has prevailed in Canada.

The Series A Trust Deed has imposed certain restrictions on the Company. It is the opinion of the Directors that changes are necessary to this Trust Deed to give the Company more freedom of action to handle its portfolio of real estate and especially to take advantage of the present and unusual conditions prevailing in the real estate market. The Directors consider it to be in the best interest of not only the shareholders but the Series A bondholders to agree to certain amendments to the Trust Deed and hope to initiate discussions shortly.

The past year has not been an easy one for business. Apart from tight money conditions and high interest rates, Governments continue to commit themselves to spend money in unprecedented amounts which, together with the apparently insatiable demands of labour, must surely cause more inflation and inevitably higher taxation. As regards property taxation, it appears at long last people are beginning to realize that the present tax structure as it affects the owners of real estate is in need of drastic revision.

It can clearly be seen in some Canadian cities that a high tax structure does not stimulate the growth of a community. On the contrary—a well planned municipality with good control over the size and density of development together with a healthy real estate tax climate inevitably pays off to the good of the citizens involved.

Last financial year the Company paid a regular dividend of five cents per share on 4th January, 1966 together with an extra dividend of three cents per share on 28th February, 1966. This year the Directors have declared the regular five cent dividend on the common shares to the shareholders of record at the close of business on January 2nd, 1967 payable on January 16th, 1967. It is expected that a further dividend will be paid later in the year.

It is the opinion of your Directors that the Company is in a sound position to participate further in the growth of the country. The Company has a well balanced portfolio of income producing real estate steadily appreciating in value. There are sufficient reserves to take care of its normal expansion. It would appear the future is encouraging.

Needless to say, the strength of any property company is still dependent upon the ability and judgment of its personnel and in this regard, I think the Company is well served by a team of competent, professionally trained personnel. I would like to express my thanks to all the members of the staff for their efforts during the past year.

P. A. Anker
President

November 17, 1966

M. E. P. C. CANADIAN P

AND SUBSIDIA

Consolidated Balance She

			Comparative 1965
CURRENT ASSETS			
Cash		**$ 138,675**	*$ 119,835*
Short term investments—at cost		**2,486,323**	—
Rents and sundry receivables		**111,667**	*34,342*
Prepaid expenses		**99,987**	*93,706*
		2,836,652	*247,883*
PROPERTIES			
At cost	$35,841,512		*30,917,596*
Less: Accumulated depreciation	1,885,836		*1,396,882*
		33,955,676	*29,520,714*
OTHER ASSETS			
Unamortized financing and other expenses	512,629		*472,393*
Advances to affiliated company re purchase of land	441,148		*435,092*
Sundry equipment—at cost less accumulated depreciation of $19,929 (1965—$11,974)	37,761		*29,661*
		991,538	*937,146*
		$37,783,866	*$30,705,743*

Approved on behalf of the Board

P. A. ANKER, *Director*
W. G. TUCKER, *Director*

The accompanying notes are an in

To the Shareholders,
M.E.P.C. CANADIAN PROPERTIES LIMITED

We have examined the consolidated balance sheet of M.E.P.C. Canadian Propertie ments of income and surplus for the year ended on that date. Our examination includ other supporting evidence as we considered necessary in the circumstances.

In our opinion the accompanying balance sheet and statements of income and 30, 1966, and the consolidated results of their operations for the year then ended, in a that of the preceding year.

Toronto, Canada
November 17, 1966.

ROPERTIES LIMITED

Y COMPANIES

as at September 30, 1966

			Comparative 1965
CURRENT LIABILITIES			
Bank advances		**$ 1,476,931**	*$ 200,000*
Accounts payable and accrued liabilities		**1,505,691**	*716,319*
Note payable—6¾% maturing April 28, 1967		**2,000,000**	—
		$ 4,982,622	*916,319*
LONG TERM DEBT			
Mortgages payable (Note 2)	$10,858,711		*9,898,606*
First mortgage bonds (Note 3)			
6¾%, Series A, due August 1, 1982	2,875,000		*3,000,000*
1983 Series, due December 1, 1983			
5⅞% ($3,187,500 U.S. Funds)	3,444,890		*3,579,984*
6⅜%	637,500		*662,500*
Notes payable (Note 4)	217,000		*692,000*
		18,033,101	*17,833,090*
DEFERRED INCOME TAXES (Note 5)		**500,000**	*500,000*
		23,515,723	*19,249,409*
SHAREHOLDERS' EQUITY (Notes 6 and 7)			
Capital Stock			
Authorized			
240,000 Preference Shares with a par value of $25 each, issuable in series			
5,000,000 Common Shares without par value			
Issued and fully paid			
100,000 6% Cumulative, Redeemable, Preference Shares, Series A	2,500,000		—
3,774,180 Common Shares	9,741,179		*9,741,179*
	12,241,179		*9,741,179*
Surplus	2,026,964		*1,715,155*
		14,268,143	*11,456,334*
		$37,783,866	*$30,705,743*

l part of the financial statements.

mited and its subsidiary companies as at September 30, 1966 and the consolidated state-
general review of the accounting procedures and such tests of accounting records and

lus present fairly the consolidated financial position of the companies as at September
rdance with generally accepted accounting principles applied on a basis consistent with

McLINTOCK MURRAY SHARP & CO.,
Chartered Accountants.

M. E. P. C. CANADIAN PROPERTIES LIMITED

AND SUBSIDIARY COMPANIES

Consolidated Statement of Surplus

FOR THE YEAR ENDED SEPTEMBER 30, 1966

			Comparative 1965
Balance, October 1, 1965		**$ 1,715,155**	*$ 1,183,812*
Add:			
Net income for the year (Note 5)			
		865,036	*720,265*
Less:		**2,580,191**	*1,904,077*
Dividends paid—preference shares (Note 6)	$ 26,300		
—common shares	301,944		*188,009*
Expenses of preference shares issue	224,983		—
Expenses of rights issue	—		913
		553,227	*188,922*
Balance, September 30, 1966		**$ 2,026,964**	*$ 1,715,155*

The accompanying notes are an integral part of the financial statements.

Consolidated Statement of Income

FOR THE YEAR ENDED SEPTEMBER 30, 1966

			Comparative 1965
Rental Income		**$3,413,510**	*$2,489,125*
Less:			
Direct property expense (heating, lighting, insurance, repairs and maintenance, municipal taxes, etc.)	$ 765,876		*436,626*
Property administration	58,214		*36,540*
		824,090	*473,166*
Net Rental Income		**2,589,420**	*2,015,959*
Less:			
Interest on long-term debt	1,137,522		*832,550*
Administration	136,168		*113,184*
Sundry expense (income)	40,477		*(30,453)*
		1,314,167	*915,281*
		1,275,253	*1,100,678*
Depreciation—buildings		**488,954**	*380,413*
Net income before the following special item		**786,299**	*720,265*
Gain on sale of property		**78,737**	—
Net income for the year (Note 5)		**$ 865,036**	*$ 720,265*

The accompanying notes are an integral part of the financial statements.

M. E. P. C. CANADIAN PROPERTIES LIMITED

AND SUBSIDIARY COMPANIES

Notes to Financial Statements September 30, 1966

1. Capital commitments at September 30, 1966 for the acquisition and/or development of properties amounted to approximately $3,000,000.

2. Mortgages payable at September 30, 1966 of $10,858,711 are subject to interest rates varying from 6% to 7½%, mature at various dates in the fiscal years 1968 to 1992, and are repayable approximately as follows:

Fiscal Years Ending September 30		Fiscal Years Ending September 30	
1967	$476,577	1970	$ 326,858
1968	486,957	1971	349,208
1969	494,398	Subsequent to 1971	8,724,713
			$10,858,711

3. Under the terms of the Trust Deeds securing the First Mortgage Bonds, the Company is required to retire for cancellation or redemption by call for the purpose of a Sinking Fund the following amounts of such bonds:

   Series A —6¾%—$125,000 on or before August 1, in each of the years 1967 to 1981.

   1983 Series—6⅜%—$12,500 on June 1 and December 1 in each year up to and including June 1, 1983.

   —5⅞%—United States Funds—$62,500 on June 1 and December 1 in each year up to and including June 1, 1983.

4. Notes payable bear interest at 6½% and mature $117,000 on April 1, 1985 and $100,000 on February 1, 1986.

5. Income taxes of approximately $440,000, otherwise payable on the net income for the year ended September 30, 1966 will be deferred to future years by claiming maximum capital cost allowances and amortization for income tax purposes which exceed depreciation and amortization recorded in the accounts. The accumulated amount of such deferments to September 30, 1966, including the amount of $500,000 set aside in the accounts prior to 1964 as deferred income taxes, is approximately $1,640,000.

6. During the year the Company received Supplementary Letters Patent designating the shares without par value of the Company as Common Shares without par value and increasing the capital of the Company by the creation of 240,000 Preference Shares with a par value of $25 each, issuable in series, and further Supplementary Letters Patent designating 100,000 of such Preference Shares as 6% Cumulative, Redeemable, Preference Shares Series A. The 100,000 Preference Shares Series A were issued for cash during the year.

   The Preference Shares Series A, are redeemable at $26.25 per share up to and including June 1, 1969 and thereafter at reducing amounts.

   The Company is required to set aside on January 1 in each year, beginning in 1969, an amount equal to not more than $50,000 to be used under certain conditions as a fund for the purchase for cancellation of Preference Shares, Series A. The amounts set aside and not used for the purchase of such Preference Shares shall at no time aggregate more than $100,000.

   Dividends on the Preference Shares Series A, have been paid to September 1, 1966. On September 27, 1966, a dividend aggregating $37,500 was declared on such Preference Shares covering the period to December 1, 1966 and payable on that date to shareholders of record November 15, 1966.

   96,600 Common Shares without par value are reserved for issuance against the exercise of the 1960 Share Purchase Warrants originally issued accompanying the Series A Bonds and entitling the holders thereof to purchase Common Shares at $3.50 on or before August 1, 1970.

   100,000 Common Shares without par value are reserved for issuance against the exercise of the 1966 Share Purchase Warrants originally issued accompanying the Preference Shares Series A and entitling the holders thereof to purchase Common Shares at $3.50 per share on or before June 30, 1976.

   32,500 Common Shares without par value are reserved for issuance under stock options granted to executives of the Company. 10,000 of such shares may be purchased at $2.50 per share exercisable with respect to 5,000 shares after October 1, 1966 and up to the close of business on October 1, 1967 and up to 5,000 shares thereafter and up to the close of business on October 1, 1968. The balance of 22,500 shares may be purchased at $3.00 per share exercisable with respect to 7,500 shares up to the close of business on October 1, 1967 and up to 7,500 shares thereafter and up to the close of business on October 1, 1968 and up to 7,500 shares thereafter and up to the close of business on October 1, 1969.

7. The Trust Deeds securing the First Mortgage Bonds contain certain restrictions on the declaration or payment of dividends on Common Shares and the redemption or reduction of capital stock, excepting the retirement of preference shares under mandatory retirement provisions, so long as any of the said Bonds are outstanding.

   The conditions attaching to the Preference Shares Series A contain certain restrictions on the declaration or payment of dividends on the Common Shares.

8. The Company intends to issue, in 1967, 6⅜% First Mortgage Bonds in an aggregate principal amount not exceeding $3,000,000 (U.S.) on the terms and conditions substantially similar to those of the existing 1983 Series Bonds.

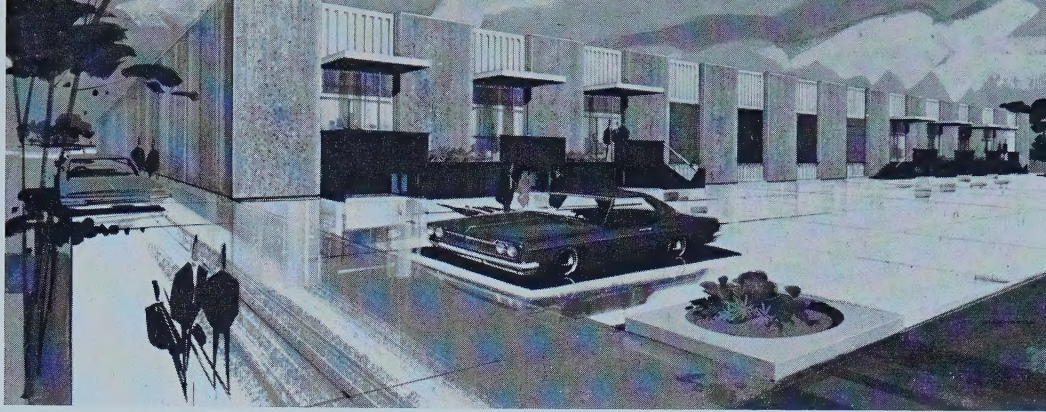
RECENT AND CURRENT DEVELOPMENTS

OFFICES AND WAREHOUSE,
LESMILL ROAD,
DON MILLS, ONTARIO

OFFICES AND SERVICE FACILITIES,
RAILSIDE ROAD,
DON MILLS, ONTARIO

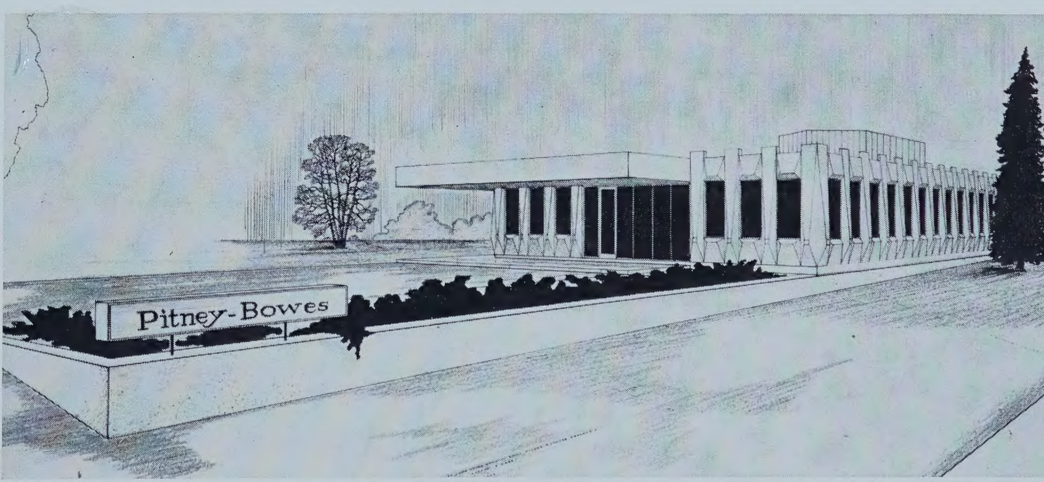
OFFICES AND WAREHOUSE,
WAVERLEY ROAD,
FORT GARRY, MANITOBA

ADDITIONAL OFFICES AND PLANT,
REXDALE BOULEVARD,
REXDALE, ONTARIO

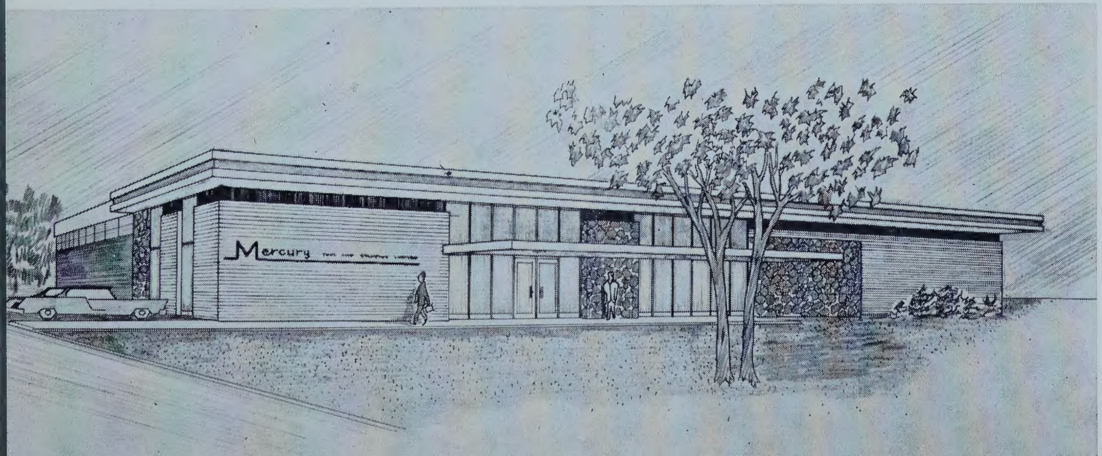


MULTIPLE WAREHOUSE BUILDING,
EIGHTH STREET S.E.,
CALGARY, ALBERTA

OFFICES,
RIVERSIDE DRIVE,
OTTAWA, ONTARIO



OFFICES, SHOWROOM AND
SERVICE CENTRE,
WOODWARD DRIVE,
OTTAWA, ONTARIO



OFFICES AND PLANT,
KIPLING AVENUE,
ETOBICOKE, ONTARIO

M. E. P. C. CANADIAN PROPERTIES LIMITED

AND SUBSIDIARY COMPANIES

Consolidated Statement of Source and Application of Funds

FOR THE YEAR ENDED SEPTEMBER 30, 1966

		Comparative 1965
Net income for the year	**$ 865,036**	*$ 720,265*
Depreciation and amortization	**561,904**	*428,823*
	1,426,940	*1,149,088*
Annual payments on long-term debt	**713,184**	*683,465*
Funds available from operations	**713,756**	*465,623*
Dividends paid	**328,244**	*188,009*
Funds available from operations for reinvestment	**385,512**	*277,614*
Additional long-term debt, mortgages and notes—net	**913,243**	*7,068,332*
Issues of capital stock—net	**2,275,017**	*37,500*
Increase in net current debt including short-term notes and bank financing	**1,477,534**	*290,793*
Repayment of mortgage advance		*2,000,000*
	$5,051,306	*$9,674,239*
Represented by:		
Increased investment in properties	**$4,923,916**	*$9,505,535*
Increase in other assets	**127,390**	*168,704*
	$5,051,306	*$9,674,239*

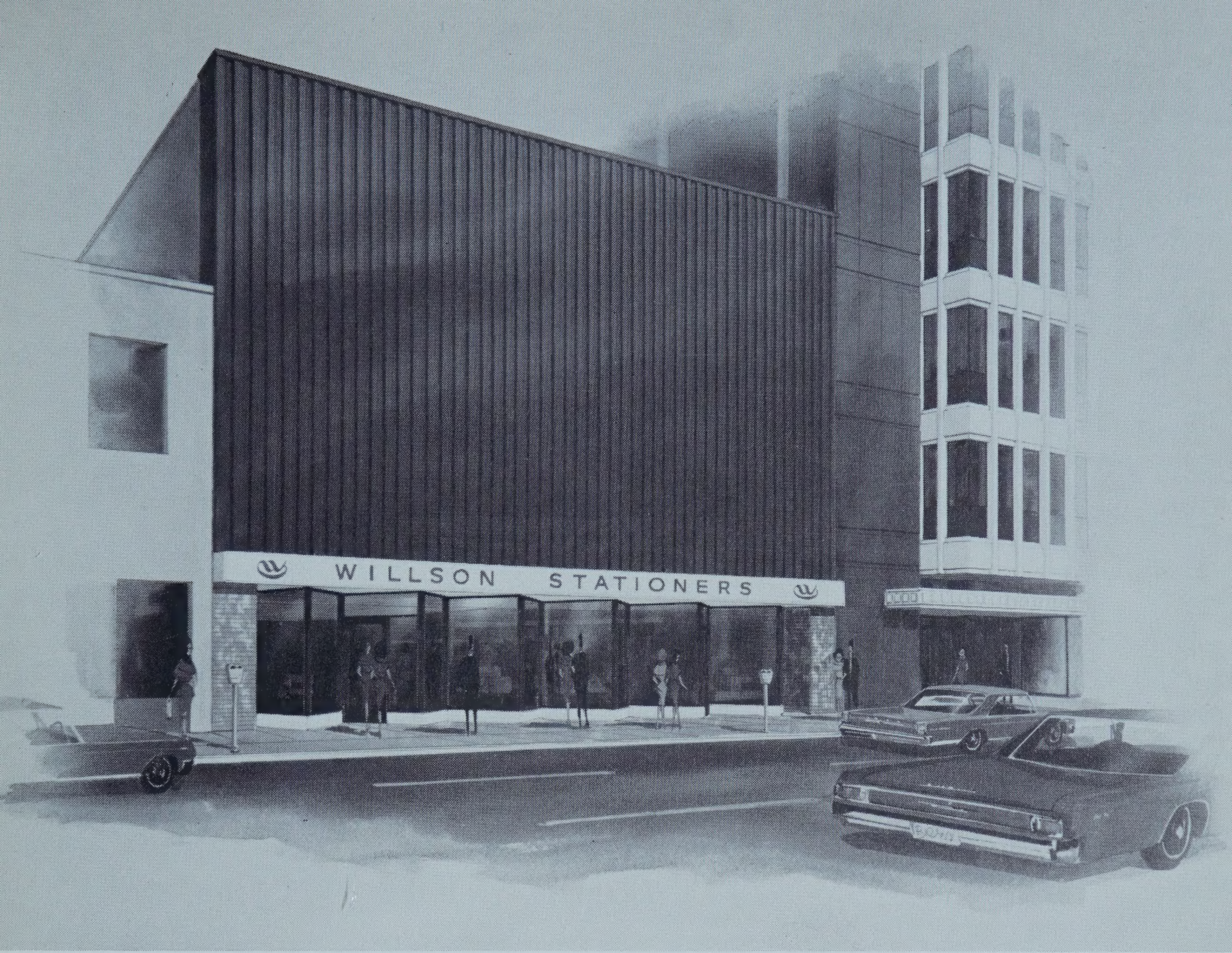
Metropolitan Estate and Property Corporation Limited

BROOK HOUSE, 113 PARK LANE, LONDON W.1, ENGLAND

(PARENT COMPANY)

Metropolitan, which has some 13,000 stockholders, was incorporated in the United Kingdom in 1946 to merge a number of well known public companies, the largest of which had been operating in the real estate investment business for 30 years. The parent company, therefore, has had some 50 years history and experience of investment in revenue-producing properties of funds provided by the stockholders, which include not only members of the public but well known institutional investors, i.e. insurance companies, pension funds, and investment trusts operating in the United Kingdom.

Metropolitan's investment policy has not been to acquire land and real estate on a speculative basis but to apply a policy of judicious investment in commercial properties, i.e. offices, retail shops and stores, factories and the like, producing a constant source of increasing revenue. The Company's assets and revenue have expanded steadily over the years with the result that Metropolitan is one of the leading property investment companies quoted on the Stock Exchanges in Britain. The present portfolio of properties is in excess of $150,000,000 and gross revenue from these properties amounts to over $13,000,000. The consolidated net profit after income taxes for the 1965 fiscal year was approximately $4,200,000.



MEPCON ESTATES LIMITED

This store located in downtown Vancouver was recently acquired for investment purposes and after substantial renovations will be leased to Willson Stationers Limited.

BRANCH OFFICES	MANAGER
TORONTO *Suite 703, 365 Bay Street, Toronto 1, Ontario*	A. J. REDMAN
OTTAWA *Suite 111, 140 Wellington Street, Ottawa 4, Ontario*	M. E. BILLINGHURST, A.R.I.C.S. J. B. CAMPBELL, C.G.A.
WINNIPEG *Suite 501, 338 Broadway Avenue, Winnipeg, Manitoba*	P. W. SKYNNER, F.R.I.
CALGARY *Suite 201, 627 6th Avenue S.W., Calgary, Alberta*	R. A. GREINER, F.R.I.
VANCOUVER *Suite 602, 1033 Davie Street, Vancouver, British Columbia*	M. H. MORGAN, A.A.I., F.R.I.

M. E. P. C.